LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6297 **NOTE PREPARED:** Jan 11, 2008
BILL NUMBER: SB 17 **BILL AMENDED:** Jan 10, 2008

SUBJECT: Redevelopment Commissions and TIF.

FIRST AUTHOR: Sen. Kenley **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: *Bonds:* With respect to certain bonds issued, or leases entered into, by redevelopment commissions and certain other local government entities for various redevelopment and economic development purposes, this bill provides that the maximum term of the bonds or leases may not exceed 25 years.

Decision-making Authority: The bill provides that certain decisions with respect to tax increment financing (TIF) allocation areas are to be made by the legislative or fiscal body of the city, town, or county instead of the redevelopment commission or are subject to the approval of the legislative or fiscal body, including: (1) approval of a statement of benefits for a tax abatement in an allocation area; (2) consent for enterprise zone investment deductions in an allocation area; (3) issuance of certain bonds; (4) use of the power of eminent domain; (5) applying for federal grants and selling bonds to federal agencies; and (6) payment of certain property tax replacement credits.

Petition and Remonstrance: This bill specifies that taxes allocated for a TIF allocation area are included in the definition of "property taxes" for purposes of the petition and remonstrance process with certain exceptions for allocated taxes that will be used to pay debt issued before July 1, 2008. The bill allows the Indiana Economic Development Corporation (IEDC) to provide that taxes allocated for a TIF allocation area are not considered property taxes for purposes of the petition and remonstrance process if the IEDC makes certain findings.

Redevelopment Commissions: The bill requires appointment of a school board member to serve as a nonvoting adviser to each redevelopment commission. It provides that the members of a county redevelopment commission are to be appointed by the county executive and the county fiscal body (instead of all appointments being made by the county executive).

Project Area Amendments: This bill revises the procedures for amending the resolution or plan for a redevelopment project area. It requires, for an amendment that enlarges the boundaries of an area, a finding that the existing area does not generate sufficient revenue to meet the financial obligations of the original project. The bill also prohibits enlargement of an economic development area unless the original area does not generate sufficient revenue for the project. It also repeals certain provisions concerning the procedure for amending a resolution previously adopted by a redevelopment commission.

AV Reallocation to Taxing Units: The bill requires a redevelopment commission to annually notify the county auditor and the county or municipal fiscal body of the amount of assessed value that may be reallocated from the commission to other taxing units.

The bill provides that a resolution establishing a TIF allocation area must include an expiration date for the allocation area that may not exceed 25 years.

The bill also provides that TIF funds generated by an allocation area may be used to make payments with respect to local public improvements only if the improvements are physically located in or physically connected to that allocation area.

Effective Date: Upon passage; July 1, 2008.

Explanation of State Expenditures: The Indiana Economic Development Corporation would have additional administrative costs to implement these new requirements. However, the precise fiscal impact of this provision is indeterminable. Not later than 15 days for the preliminary adoption of the local resolution to issue bonds or lease rentals which will be supported by property tax, the bill requires that the IEDC issue a statement finding whether TIF revenue should not be considered property taxes for purposes of the petition remonstrance process.

The funds and resources that may be required for the IEDC to implement the new requirements could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The state vacant position report for December 31, 2007, indicates the IEDC had 10 vacant full-time positions.

Explanation of State Revenues:

Explanation of Local Expenditures: All of the proposed changes in this bill are prospective. The bond provisions do not affect bonds that have already been issued.

Bonds: Under current law, TIF bonds must mature within 50 years. This bill would reduce the maximum length of bonds issued after June 30, 2008, to 25 years. The 25-year limitation for new bonds could result in larger principal, but smaller interest payments each year. The size of new bond issues and the scope of related projects could be limited by the ability to pay off the bonds in a shorter time frame.

Under current law, bond issues of $3 M or greater that are proposed by the redevelopment commission must be approved by the unit legislative body. After June 30, 2008, the bill would require the unit legislative body to consider all bond issues proposed by the redevelopment commission.

Decision-making Authority: Under current law, redevelopment commissions have authority to permit tax abatements and enterprise zone investment deductions in the allocation area, issue bonds, use eminent domain, apply for federal grants, and pay TIF-funded PTRC in the allocation area. Under this bill, the redevelopment commissions would, instead, make recommendations to the county or municipal legislative body that approved designation of the allocation area. Decision-making authority would be transferred to the county or municipal legislative body.

Petition and Remonstrance: Under current law, proposed TIF bonds are not subject to the petition and remonstrance procedure. Under this bill, the petition and remonstrance process would not apply to TIF bonds if the IEDC within 15 days of the adoption of the resolution to issue bonds that revenues should not be included..

Redevelopment Commissions: Under current law, <u>municipal</u> redevelopment commissions are comprised of five voting members. Three members are appointed by the municipal executive, and two members are appointed by the municipal legislative body. In addition to these members, under the bill, the municipal executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, <u>county</u> redevelopment commissions are comprised of either five or seven voting members, all of whom are appointed by the county executive. The number of members is determined by county ordinance.

Under the bill, the county executive would appoint three members and the county fiscal body would appoint two members for a five-member commission. For a seven-member commission, the county executive would appoint four members and the county fiscal body would appoint three members. In addition to these members, the county executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, a redevelopment commission can create a TIF district for a maximum of 30 years. The bill reduces the period to 25 years.

Project Area Amendments: Under current law, a redevelopment commission that proposes to amend the resolution or plan must find that (1) the amendment is reasonable and appropriate in relation to the original resolution or plan and the purpose of the statute, and (2) the amended resolution or plan conforms to the unit's comprehensive plan. The commission must conduct a public hearing on the matter.

If the amendment enlarges the allocation area, then under the bill the commission must also find that the existing area does not generate sufficient revenue to meet the obligations of the original project.

AV Reallocation to Taxing Units: Currently, the redevelopment commission must notify the county auditor each year if the taxes payable on the allocated AV will exceed the amount needed to pay obligations and reimburse the county or municipality for expenditures made on the commission's behalf.

This bill would require the redevelopment commission to provide written notice each year to the county auditor, the county or municipal fiscal body, and the fiscal offices of the other taxing units that wholly or partially include the area served by the commission. The notice must state (a) the amount by which the revenues will exceed obligations or (2) that there is no excess.

The bill would require property eligible for tax abatement in the allocation area to have the abatement approved by the legislative body that created the allocation area.

Background: In 2006, $8.5 B in real property AV and $935 M in personal property AV were tiffed for a total TIF AV of $9.4 B. The net tax (after TIF-funded PTRC) generated by the TIF AV was $229.8 M.

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected: Redevelopment commissions; Civil taxing units and school corporations.

Information Sources: Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.